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ABSTRACT

A study designed to identify and analyze the factors of success associated with eight medical school recipients of Financial Distress Grants from the Health Resources Administration is briefly summarized. "Factors of success" refers to actions proposed and taken by the medical schoools as grant recipients, and the extent to which these actions were successful in contributing to the financial stability of the schools. Seven of the medical schools proposed a series of actions that would improve their fiscal posture, and one school received funds solely to implement actions that would allow it to maintain its accreditation. The grants helped the medical schools to fund their operating deficits during financially difficult periods, while undertaking a series of actions designed to improve their financial situations. The actions that were instituted most often by the eight schools were: increasing tuition, controlling salaries and positions, conducting internal cost studies, increasing practice plan income, obtaining or increasing state or state-like aid, revising management structure of personnel, and increasing contributions. Revenue-producing actions were more commonly employed and had more impact on the financial performance of the schools than did cost-control measures. The two actions that had the greatest impact on the financial performance of the medical schools were to increase tuition and increase practice plan income. Charts that compare the actions taken by the schools (coded to insure anonymity) are included. The medical schools are identified in the introduction (and in HE 013 669). (SW)

HRP-0902918

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A REPORT ON MEDICAL SCHOOL RECIPIENTS OF FINANCIAL DISTRESS GRANTS

EXECUTIVE SUMMARY

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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This report is made pursuant to Contract No. 232-79-0077. The amount charged to the Department of Health and Human Services for the work resulting in this report is $109,923. The names of the persons, employed or retained by the Contractor, with managerial or professional responsibility for such work, and for the content of the report, are as follows: Mr. James W. Buttimer, Vice President; Mr. Michael J. Cooperman, Principal; Ms. Josephine E. Heindel, Consultant; Ms. A. Clayton Spencer, Research Consultant; and Dr. John C. Bartlett (subcontractor).

Cresap, McCormick and Paget inc.
Management Consultants

EXECUTIVE SUMMARY

This executive summary briefly describes the study of the Financial Distress Grant Program undertaken by Cresap, McCormick and Paget Inc. for the Health Resources Administration.

STUDY OBJECTIVE AND SCOPE

The objective of this study was to identify and analyze the "factors of success" associated with eight medical school recipients of Financial Distress Grants. "Factors of success" refer to actions proposed and taken by the medical schools as grant recipients, and the extent to which these actions were successful in contributing to the financial stability of the schools.

The scope of the study encompassed eight of the nine medical schools that received Financial Distress Grants between 1972 and 1976. The ninth school has been excluded from the study because it is still receiving funding. This study also focuses on the actions taken by the eight medical schools, rather than on the strategy or rationale used by each school in seeking and allocating the funds it received.

STUDY APPROACH

The study approach consisted of the following steps:

- Assembling and reviewing background data, including relevant legislation, regulation, and grant applications
- Interviewing selected persons at the Health Resources Administration, including those directly involved in administering the grant program
- Reviewing the specific objectives and actions cited by the medical schools in their grant applications

- Conducting site interviews with representatives at each of the medical schools and reviewing relevant data and information

- Analyzing the information obtained and determining each school's success in achieving its stated objectives

- Identifying and analyzing the "successful" actions common among the schools

- Developing conclusions and implications concerning the Financial Distress Grant Program

- Preparing a final report to document study findings.

BACKGROUND

"Financial distress" is defined under Section 773(a) of the Public Health Service Act, as amended by the Comprehensive Health Manpower Training Act of 1971. Under this act, an eligible school may be considered to be in financial distress if it is in "serious financial straits" to meet its operating costs or has "a special need for financial assistance" to meet accreditation requirements.

The legislation was subsequently replaced by the Health Professions Educational Assistance Act of 1976. Under Section 788(b) of the act, the definition was broadened and sharpened. An eligible school may be considered in financial distress if it has an operating income insufficient to meet the costs of operation in the fiscal year for which the grant is sought, a special need for financial assistance to meet accreditation requirements, or a need for financial assistance to implement operational, managerial, and financial reforms.

The Financial Distress Grant Program has been available to schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, pharmacy, podiatry or public health. Schools requesting the grants were required to submit a detailed, formal application in each year that funding was sought. The application format required a discussion of the extent of the problem, the sources and causes, the actions already taken, and the plan proposed to eliminate financial distress.

From fiscal 1972 through 1980, approximately $64 million in grants were approved, including about $33 million for medical schools. The nine medical schools receiving grants during this period were:

- Creighton University School of Medicine
- George Washington University School of Medicine
- Georgetown University School of Medicine
- Meharry Medical College
- New York Medical College
- St. Louis University School of Medicine
- Temple University School of Medicine
- Tulane University School of Medicine
- University of Nevada-Reno, School of Medical Sciences.

INDIVIDUAL SCHOOL ACTIONS

Each Financial Distress Grant was awarded for one year, during which the school would be expected to initiate actions designed to improve its financial position. The funding was also intended to help prevent a school from taking austere measures that could otherwise prove damaging in the longer term. Seven of the medical schools that received a grant proposed a series of actions that would improve their fiscal posture. One school received funds solely to implement actions that would allow it to maintain its accreditation.

The actions proposed and taken by each school were analyzed individually, focusing on the specific steps taken by the school to implement its action plan. In addition, the actions were evaluated against financial and nonfinancial criteria as having had a major, moderate or minor or no impact on each school.

Overall, each of the eight schools received significant benefits from the actions taken and is in a stronger financial position than it was at the time that the grants were received. In all cases, the grants provided an opportunity for the medical schools to fund substantial portions of their operating deficits during financially difficult periods, while undertaking a series of actions designed to improve their financial situations. In so doing, the program fostered or encouraged a continued self-evaluation by the schools and the development of appropriate action plans. The combination of the receipt of the

grant and the taking of a series of proposed actions has had a positive and beneficial effect to this point in time. Further, many of the actions have a long-term effect that should last well beyond the years in which the grants were awarded. For example, expanding practice plan income, putting in place analytical and planning processes and strengthening the caliber of management personnel were of long term benefit to the schools.

COMMONALITY OF ACTIONS TAKEN

The review of commonality involves the extent to which an action was common among the schools studied. As shown in Exhibit I-1, 20 different actions were taken by the eight medical schools. (To ensure anonymity, the institutions are coded with the letters A through H). The actions with the highest degree of commonality (that is, taken by more than four of the eight schools) include: increasing tuition, controlling salaries and positions, conducting internal cost studies, increasing practice plan income, obtaining or increasing state or state-like aid, revising management structure or personnel, and increasing contributions.

IMPACT OF THE ACTIONS TAKEN

The actions taken by the medical schools were also grouped in terms of the extent of their impact on the school. Exhibit I-2 presents the classifications of impact for the actions taken by the medical schools, in terms of having had a major, moderate, or minor or no impact.

As shown in the exhibits, revenue-producing actions were more commonly employed and had more impact on the financial performance of the schools than did cost-control measures. Six of the ten actions that were most commonly taken by the schools and that had the most major impact were actions intended specifically to increase revenues. These revenue-producing measures include: increasing tuition, increasing practice plan income, changing affiliation relationship(s), obtaining or increasing state(like) aid, increasing contributions and securing grants. By contrast, only two of the top ten actions were focused on controlling costs: controlling salaries and positions and conducting internal cost studies.

The two actions that had the greatest impact on the financial performance of the medical schools (increase in tuition and increase in practice plan income) are discussed individually.

Health Resources Administration

COMMONALITY OF ACTIONS TAKEN BY RECIPIENTS OF FINANCIAL DISTRESS GRANTS

Action Taken	MEDICAL SCHOOLS								Total Number Of Schools
	A	B	C	D	E	F	G	H	
Increase Tuition	X	X	X	X	X	X	X	X	8
Control Salaries/Positions	X	X	X	X	X	X	X		7
Conduct Internal Cost Studies	X	X	X	X	X	X	X		7
Increase Practice Plan Income		X	X	X	X	X	X		6
Obtain/Increase State or State-Like Aid		X	X	X	X		X	X	6
Change Management Structure/Personnel		X	X	X	X	X			5
Increase Contributions	X	X	X			X	X		5
Change Affiliation Relationship(s)		X			X	X			3
Relocate/Construct Facilities	X				X	X			3
Secure Grants						X	X	X	3
Recover Costs On Sponsored Research		X			X				2
Increase Federal Funding	X						X		2
Obtain External Funding Source	X								1
Improve Facilities Maintenance/Management			X		X				1
Restrict Purchases and Equipment						X			1
Reduce Non-Reimbursed Services							X		1
Encourage Basic Science Faculty To Seek Reimbursable Time Outside School							X		1
Hire Faculty								X	1
Develop Research Component								X	1
Develop Contractual Agreements With Other Schools To Accept Graduates								X	1

EXHIBIT I-1

EXHIBIT I-2

Health Resources Administration

IMPACT OF ACTIONS TAKEN BY RECIPIENTS OF FINANCIAL DISTRESS GRANTS

Action	Levels of Impact on Medical Schools		
	Major	Moderate	Minor Or No
Increase Tuition	ABCDEFGH		
Increase Practice Plan Income	BCEFG	D	A
Control Salaries/Positions		ABDEFG	C
Change Affiliation Relationship	BEF		
Relocate/Construct Facilities	AEF		
Obtain/Increase State or State-Like Aid	AH	CD	BEG
Change Management Structure/Personnel	D	BC	EF
Conduct Internal Cost Studies		AC	BDEFG
Increase Contributions		FG	ABC
Secure Grants		GH	F
Increase Federal Funding	A		G
Obtain External Funding Source	A		
Hire Faculty	H		
Encourage Basic Science Faculty to Seek Reimbursable Time Outside School		G	
Develop Research Component		H	
Improve Facilities Management			CE
Recover Costs On Sponsored Research			BE
Restrict Purchases And Equipment			F
Reduce Non-Reimbursed Community Services			G
Develop Contractual Agreements With Other Schools to Accept Graduates			H

Increase in tuition. Tuition increases were implemented by all eight of the medical schools studied. Between 1971 and 1979, tuition increases at these schools ranged from a low of approximately 220 per cent to more than 700 per cent, with an average increase of almost 400 per cent.

Among the funding sources available to these medical schools, tuition increases could be implemented rapidly and were comparatively uncomplicated to put into effect. Tuition increases lead to immediate improvements in the school's cash-flow situation. In addition, tuition increases are not subject to the costs associated with other funding sources, such as the promotional expense of a campaign to raise contributions. Furthermore, the schools studied generally implemented tuition increases without raising their contribution to student aid.

Increase in practice plan income. Six of the eight schools either restructured existing clinical practice plans or developed new plans to increase the income provided to the school. Efforts to build practice plan revenues had a major impact at four of the schools and a moderate impact at two others. One of the schools made no changes in its ongoing plan, viewing it as sufficiently profitable. The eighth school attempted, throughout the 1970s, to launch a practice plan and only succeeded in doing so in 1980.

Although the specific provisions of the plan vary among the schools studied, it is clear that practice plan income is a major and controllable funding source for six of the medical schools. In 1972, the faculty practice plans contributed as much as 13 per cent of the operating budget in any of these schools. By 1979, the proportion of the budget drawn from practice plan funds had increased at all of these schools, with one school receiving more than 33 per cent of its total operating funds from its clinical practice plan.

OTHER CONCLUSIONS

A number of other conclusions concerning the programmatic and administrative aspects of the Financial Distress Grant Program for medical schools were made. In regarding programmatic aspects:

- The recipients of the Financial Distress Grants have all significantly strengthened their financial positions since receipt of the grants.

- Medical schools are likely to increase tuition to compensate for the decline of federal funding.

- The awarding of grants having a multi-year time frame would have a number of benefits.

- The structure of the program discourages the application for grants by public schools.

Regarding administrative aspects:

- The title of the program, "Financial Distress," is bothersome to most of the schools.

- The extensive application process is desirable.

NEXT STEPS

A number of specific action steps should be taken as a follow-up to this study.

- The full report should be reviewed in detail by the appropriate persons within the Health Resources Administration, and should be made available to the Health Professions National Advisory Council.

- A statement of policy should be developed detailing the proper role for the Financial Distress Program within the broad context of aid to medical schools.

- A control group of schools that did not receive Financial Distress Grants should be analyzed (and compared with grant recipients) regarding the actions they took and their success in attaining their stated objectives without the grants.

- The applicability of the study findings to the other health professions schools (schools of dentistry, pharmacy, osteopathy, podiatry, optometry and veterinary medicine) should also be explored.